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SUBJECT: THE CHALLENGES OF GOVERNING BEGIN FOR PM RUDD

Classified By: Charge Daniel A Clune, for reasons 1.4 (b) and (d).

¶1. (SBU) SUMMARY: The new Rudd Government will face several challenges during its first term, including rising inflation and interest rates, a Senate without an Australian Labor Party (ALP) majority, an assertive union movement and an ALP left-wing eager to undermine the cultural and social legacy of the Howard years. Desperate for an ALP victory, the ALP Left and the unions kept quiet during the election campaign. Since the November 24 election, however, they have become more vocal, particularly the unions, which want a return on the significant role they played in the ALP's victory. Rudd - a social and economic conservative - will resist their agenda in his attempt to retain ownership of the political middle ground, but this could exacerbate Left-Right tensions within the ALP. END SUMMARY.

"IT'S THE ECONOMY STUPID"

¶2. (SBU) The Coalition left office with a good economic record - an independent Reserve Bank, virtual full employment, a budget surplus, very low government debt, the lowest level of industrial disputes on record, relatively low inflation, and low interest rates. Although it lost the election, voters told pollsters that the Coalition was a better economic manager than the ALP. On macro-economic policy the Coalition and ALP are virtually identical, but on micro-economic policy, the general consensus among economists was that the ALP's industrial relations policy would not put as much downward pressure on unemployment as the Coalition's.

Since Rudd was elected, economic pressures have increased - thru no fault of the brand-new ALP. The fallout from the U.S. sub-prime collapse has continued; Australia's stock market has declined significantly over the past two weeks, as have the U.S. and international markets. Inflationary pressures that had already begun to appear before the 2007 elections, caused by an economy operating at full capacity, have continued to build in the past two months. To combat inflation, Rudd has reaffirmed his determination to slash government expenditure, and Treasurer Wayne Swan has tried - unsuccessfully - to jawbone banks to limit hikes in mortgage rates. While it is too early to predict Australia's economic indicators for 2010, it is possible that Rudd will go into the next election with worse economic conditions than he inherited. Although many economic factors are beyond the ALP's reach, the risk for Rudd is that some voters will associate Howard's tenure with good economic performances and may return to the Coalition.

WORDS THAT MAY HAUNT RUDD

¶3. (C/NF)) Rudd has promised extra funding to improve services in public hospitals and has threatened to take over public hospitals from the states if there is no improvement by mid-2009. Rudd has regularly declared he will "stop the blame game" between state and Federal governments, and that "the buck will stop with me on hospitals." These words could

come back to haunt him at the next election if there is no tangible improvement in hospital services and he meets resistance from ALP State governments, most of whom will be facing re-election during Rudd's term. A former staffer to Prime Minister Howard noted that the biggest challenge facing the Labor governments was on hospital services. The public now expects them to improve the public hospitals in Australia. Now expects them to improve the public hospitals in Australia and if they cannot deliver on what they have promised, they will be blamed. On climate change and education, Rudd has also raised expectations, particularly among young people, and he may have troubling fulfilling these promises given their high cost.

PROBLEMS IN THE SENATE?

14. (SBU) The new 76-seat Senate, to commence sitting in July, will be made up of 37 Coalition Senators, 32 ALP, 5 Green Party, one Family First and one Independent. If the Coalition unanimously opposes an ALP bill, the ALP will have to rely on the Left-wing Greens to guarantee its passage. The Greens may use their leverage with the ALP to extract concessions. After the election, the Green Party wasted no time in claiming that its deal with the ALP on preference voting was vital to the ALP winning several seats.

"ONE WE GET IN, WE'LL JUST CHANGE IT ALL"

15. (SBU) During the campaign, the Coalition attempted to make political mileage out of this throwaway line from Environment Minister Peter Garrett. No doubt, many on the Left are hoping this statement is true and that Rudd's adoption of

many of the Howard government's policies during the campaign was simply a facade to get elected. The ALP Left has already begun to pressure the Rudd government to adopt more left-wing positions on a number of issues, particularly those on the front-line of the "culture wars" such as Aboriginal rights, gay rights, the debate over an Australian republic, immigration policy, and education standards. However, as he demonstrated when Opposition Leader, Rudd will not stray far from the middle ground on these issues. He will find it more difficult, however, to resist the demands of the unions.

UNIONS HAVE POWER IN THE ALP

16. (SBU) Since he became leader, Rudd has attempted to create the impression that he would not be beholden to the union movement and would govern in "the national interest." The unions, on the other hand, which founded the ALP, have institutional power in the party. The ALP Constitution stipulates that members of the Party are encouraged to be members of a union and that state and territory Branch rules should require members of the Party to be members of a union or to employ union labor to the maximum extent permitted by law. Unions are entitled to 50 percent of the votes at the biennial ALP National Conference - the ALP's supreme policy making body. The Conference elects the ALP National Executive - which acts as a final arbiter of organizational disputes, such as pre-selections. Almost every ALP MP and Senator owes his/her pre-selection to a union-dominated faction. The unions essentially funded the ALP when it was in Opposition, and the Australian Council of Trade Unions spent an estimated AUD \$20 million in 2007 on its campaign against the Coalition's "WorkChoices" legislation and the Howard Government.

UNIONS WANT A RETURN ON THEIR INVESTMENT

17. (SBU) Although Rudd campaigned heavily on "abolishing WorkChoices," the ALP's industrial relations policy is not a return to the pre-Howard past. The most notable differences are a greater emphasis on collective bargaining and a winding back of exemptions from unfair dismissal laws (currently applied to businesses with fewer than 100 employees which the ALP proposes to change to 15 employees). The unions were unhappy with several aspects of the ALP's policy, including the maintaining of restrictions on union entry into

workplaces, the retention of the building industry's industrial watchdog until 2010, and the exemption of workers earning over \$A100,000. With the election over, the unions now want Rudd to go further. Two days after the election, Unions NSW Secretary John Robertson called on the ALP to abolish all Australian Workplace Agreements (AWAs) signed before the election. Deputy Prime Minister and Employment Relations Minister Julia Gillard rejected this demand, as not part of the industrial relations policy the ALP had promised the voters. Manufacturing, textile, and footwear unions will be pushing for a slowdown in planned tariff reductions, and have reservations about a proposed Australia-China free trade agreement. The Community and Public Sector Union, which affiliated with the ALP in July, feels betrayed that the Rudd Government is cutting public service jobs. With the viability of unions fundamentally dependent on their membership base, they will want rules that make it easier for them to sign up new members. Union coverage is currently 20 percent of the workforce, down from 50 percent two decades ago. It will also be interesting to see how Rudd handles the entry into Parliament of the powerful ex-union official Bill Shorten.

COMMENT: RUDD HONEYMOON COULD QUICKLY END

18. COMMENT: (C/NF) Some Labor MPs (in particular in the Left) and the unions don't particularly like Rudd, but they have grudgingly given him unprecedented authority due to his victory. Keeping this authority will largely depend on Rudd maintaining his high standing in the electorate and, to a lesser extent, striking the right balance between appeasing and resisting the demands of the unions and the Left. While Rudd remains popular, his colleagues - hungry for a long stint in power after more than a decade in the wilderness - will generally let him have his way. Should his popularity with the electorate collapse, however, the factions within the ALP may reassert themselves. A big factor determining whether Rudd can be reelected will be the support of Rudd's "working families" (i.e. the "Howard Battlers"). Rudd won their votes largely due to the perception that Howard was out of touch on cost of living issues such as grocery and petrol prices, and interest rates. Although the ALP did not actually promise to reduce these costs, many working families will expect Labor to hold down the cost of living. Some voters - accustomed to the Howard Government's budget handouts and tax cuts over the last decade - may also tire of Rudd's fiscal rectitude.

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